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SUBJECT: LULA'S NEXT FISCAL LITMUS TEST: 2004'S MINIMUM-WAGE HIKE

1. The annual adjustment of Brazil's official minimum wage takes effect May 1, meaning the GoB usually announces the new number by mid-April. A 'strawman' figure is always included, and funds programmed accordingly, in the GoB's initial budget presentation to Congress the preceding August, but that figure has not been taken as a serious indicator of the final official one in recent years. Lula's Worker's Party always attacked previous GoBs for keeping the minimum wage too low. Lula during his 2002 presidential campaign proclaimed he would double it in real terms by 2007. Last year, his first in office, he raised it 20% in nominal terms to 240 Reals per month.

2. The GoB's preliminary number for 2004 was a 7.9% nominal raise, to 259 Reals. The August 2003 draft budget duly set aside about two billion Reals to cover that amount. But the common expectation has come to be that the GoB will announce something between 270 and 280. That would reportedly require extra budget outlays of two to three billion Reals. This being Brazil's local-election year, with some 5,600 mayoral and 60,000 town-counselor races, various voices, especially in Congress -- largely oppositionists, rather than from Lula's leftist coalition -- are agitating for upwards of 300 Reals.

3. For President Lula, the crux is fiscal, not political. In Brazil, the minimum wage is overwhelmingly a public-sector budget issue rather than a private-sector business concern. Minimum-wage workers themselves are a relatively trivial factor. Reportedly no more than a few hundred thousand public-sector employees work for minimum wage. (An estimated six million maids, gardeners and other domestic informal workers do, according to the official IBGE estimate.) However, the latter is the basis for extensive other government expenses. Of Brazil's 22 million INSS (Social-Security equivalent) private-sector retirees, for example, 15 million get a minimum-wage pension. Thus, a relatively less-skinflint hike would hit INSS very hard, in a year when the INSS deficit is already increasing so fast that it has for the first time overtaken that of Brazil's public-sector pension system -- an infamous fiscal crater.

4. Overall, CSFB calculates that each one-Real hike in the wage means an extra Reals 141 million from the GoB budget for the balance of 2004 starting May 1. An April 16 'Estado de Sao Paulo' column reported that each one-percent hike over the 259 Real figure will translate to 438 million Reals a year extra expenditure by the government.

5. Commentators highlight the particular plight of Brazil's smaller municipalities in this respect. Especially in the impoverished Northeast, their budgets, with puny and sometimes shrinking revenues, have a far higher proportion of minimum-wage-linked expenditures. It is claimed that lifting the minimum wage even to 270 Reals would force at least a thousand of Brazil's mayors into the dilemma of either not making constitutionally mandated outlays or violating the May 2000 federal Law of Fiscal Responsibility.

6. The GoB announcement of its minimum-wage decision, expected on April 15, was postponed without explanation. Inter alia, the GoB is reportedly seeking creative devices by which to supplement payments to minimum-wage-income families, such as via an existing social program dating back to 1963 ("salario-familia") which would make payments for children under fourteen to the tune of 13 Reals per eligible child. This would modestly increase such minimum-income-families' buying power without boosting the official minimum wage, thus avoiding follow-on costs for INSS and other linked government expenditures.

7. Lula has already admitted that the wage's doubling in real terms by 2007 does not look feasible. In this fiscal-policy sphere, too, even his critics are giving him credit for casting away old PT ideology and rhetoric and responsibly weighing the consequences for Brazil's public budget.

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